



Focus on the Fisc

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FOCUS POINTS

Administration Proposes Tax Reform

Greg Albrecht, Chief Economist

The administration is currently exploring various significant changes to the state tax code in preparation for the next legislative session. The centerpiece of these ideas is elimination of the state personal income tax and corporate taxes in exchange for an increase in the state sales tax rate and/or base. Aggregate revenue neutrality is a stated goal. While no specific legislation has yet been proposed, some general observations can be made with regard to the discussion of such a tax swap.

Simply on the basis of official revenue forecasts of net collections, the sales tax and the income/corporate tax are both roughly \$2.9 B. Thus, a doubling of the sales tax rate would be required, in the absence of any tax base expansion. This simple tax swap scenario results in an allocation of the tax reductions and increases across three broad groups in the economy: resident households, businesses, and tourists. From a simple static analysis and direct imposition perspective, resident households will benefit from virtually all of the personal income tax reduction and will pay just under half of the sales tax increase. Businesses will benefit from virtually all of the corporate tax reduction and will also pay just under half of the sales tax increase. Tourists will receive no benefit from the income tax reduction, and will pay a small portion of the sales tax increase. Nonresident income tax filers are not included in these observations.

With respect to households only, the distribution of such a tax swap will likely result in a net increase in tax burden on households with less than \$20,000 to \$30,000 of federal adjusted gross income (nearly half of all filers), while households over that income range will likely face a decreased state tax burden (a little over half of all filers). Results vary depending on factors such as household filing status, where single filers are likely to breakeven between \$10,000 and \$20,000, joint filers likely breakeven between \$30,000 and \$50,000, and head-of-household filers likely breakeven between \$20,000 and \$30,000.

In order to avoid a full four-point increase in sales tax rate, the administration has suggested the possibility of expanding the sales tax base into currently exempt transactions. The Dept. of Revenue Tax Exemption Budget lists some one hundred sales tax exemptions that are reported together as "other totally tax-exempt

transactions" on the sales tax form. Individual values are not known but as a group these exemptions are reportedly worth over \$800 M of sales tax at the current 4% rate. Subjecting all of these transactions to tax could offset the need for a full one-point of sales tax rate increase. However, this reported value should be viewed cautiously given that it has not been carefully detailed across the many exemptions it reflects. While these exemptions are varied, large portions of their value would likely be represented in areas such as agriculture (feed, seed, and fertilizer etc.), oil & gas activities (drilling rig materials and repairs), and ships & vessels components and servicing. Other material value is likely from sales in the Superdome and other public facilities, sales of newspapers, custom computer software, and purchases by private colleges, among numerous other exempt transactions. To the extent any of these exemptions are eliminated, the necessary sales tax rate increase can be smaller and still generate sufficient revenue to offset the elimination of income and corporate taxes.

A few other sizable exemptions are individually itemized on the sales tax form, and if subjected to taxation could help dampen the overall rate increase. These transactions include the constitutional exemptions of food for home consumption (\$334 M), residential utilities (\$145 M), and prescription drugs (\$239 M), as well as statutory exemptions for business utilities (\$300 M), manufacturing machinery (\$25 M), and sales for subsequent lease/rental (\$10 M). However, the administration has indicated that these exemptions are not being considered as they serve to benefit low-income households and business-to-business transactions.

The administration has also suggested the possibility of expanding the sales tax base into services that are not currently defined in the tax base. This can also allow the tax swap to occur with something less than a four-point increase in the sales tax rate. Subject to numerous specific exceptions, a number of services are already taxed by the state, such as hotel rooms, admissions to amusement, recreational, and entertainment events, parking charges, printing/copying, laundry and cleaning, and repairs to autos & appliances. Additional services that might be newly subject to tax have not been specified, but a review of services taxed by Texas can be informative as to other services that might be considered. With exceptions of its own, services subject to sales tax in Texas include cable & satellite television, data processing, news and other information, various insurance related activities, internet access, credit reporting, debt collection, and

various security related activities. The administration does not appear to be considering various areas of professional services such as medical care, legal, accounting, consulting, advertising, credit & financial, real estate, scientific and technical etc. As the economy has become increasingly more service oriented, there is likely substantial service sector tax base; however, a material portion of this base will likely reflect business-to-business transactions and, regardless, it is unlikely that any estimates of potential tax base/receipts can be developed with high confidence levels associated with them.

New revenue has also been suggested by the administration, namely an increase of the tobacco tax on cigarettes; currently, at 36¢ per 20-pack. A specific amount of rate increase has not been proposed, but any additional revenue can offset some of the necessary sales tax rate increase or base expansion. However, such a revenue measure can only offset a portion of the necessary sales tax increase. A \$1.00 per pack increase proposed in 2009 was estimated at the time to generate additional revenue equivalent to only 26% of the average yield of one percentage point of sales tax rate. In general, the ability to offset the necessary sales tax rate and base expansions by raising other existing revenue sources seems limited.

In addition, the administration has suggested retaining selected programs that are charged against the gross collections of the income and corporate taxes. Major examples of these programs are the reimbursement of local property taxes paid on inventories (\$350 M), the reimbursement of a portion of expenditures made by film productions (\$220 M), and the support paid to low income households eligible for the federal earned income credit (\$45 M). Numerous such programs are administered by various state agencies, and may be considered for retention, along with other traditional tax exemptions and credits. The administration has not specified what it wants to retain. To the extent any such programs are retained, the necessary sales tax rate increase, base expansion, or new revenue will have to be larger in order to generate more revenue than is being foregone in income taxes so that these programs can continue to be funded.

Along more general lines, the current personal income tax is a progressive tax and the current sales tax is a regressive tax. The two taxes combine to make the distribution of household taxation in LA essentially proportional. Elimination of the income tax will leave a tax system that is regressive with respect to households. The retention of exemptions for home food, utilities, and drugs cannot make the sales tax progressive. These exemptions exist with the regressiveness of the current sales tax. Likewise,

retention of the benefit-equivalent of the earned income tax credit does not moderate the impact of higher sales taxes on low-income households. These households receive this benefit now with the current sales taxes, and would receive the benefit in the future but pay higher sales taxes. To ameliorate the impact of the tax swap on low-income households would require additional sales tax exemptions targeted to those households and/or an increase in the low-income tax credit benefit-equivalent. Additional exemptions or expanded benefits will ultimately require additional sales tax rate or base.

With regard to the issues of revenue stability and growth, the research is mixed and many nuances are influential in particular findings. In general, both sales taxes and income taxes move with the economy, sales taxes tend to exhibit less average volatility than income taxes, while income taxes tend to exhibit greater average growth than sales taxes. Much of the stability of sales taxes is attributable to the taxation of residential food and utilities, both of which are exempt in LA. Much of the volatility of income taxes is attributable to the taxation of capital income, which LA has in lower proportion than do other large states that tend to dominate these analyses. In addition, LA is one of the few states that allows full deductibility of federal income taxes paid, which ties us to federal income tax changes and adds to our volatility. Going forward, unless the sales tax base is expanded into many of the service areas mentioned above, including medical, professional, financial, information etc., that reflect the modern economy, it is likely that state revenue growth under a sales tax reliant system will be less than under the current combined sales and income tax system.

Finally, the macroeconomic effects of such a tax swap are likely to be small, if they exist at all. States in general do not really have macroeconomic policy capability. States cannot manipulate the money supply or interest rates, and have to balance their budgets annually. Elimination of income taxes will increase disposable income, but the spending of total disposable income will be subject to higher taxation. Ultimately, aggregate revenue neutrality in sales and income tax receipts implies that effective aggregate demand is largely unchanged. The net impact on the economy is essentially zero. The supply-side effects of greater labor supply and capital formation resulting from lower marginal income tax rates, in this case zero marginal rates, are more appropriately considered in the context of the national economy rather than the low tax and completely open economy context of a small state. To the extent business formation is influenced, businesses and industries react differently to different taxes. Business formation may be positively influenced by the income tax elimination,

and negatively influenced by the sales tax increase. Regardless, supply-side effects are long-run effects occurring, if at all, well outside the budgetary planning horizon.

REVENUE

FY 13 Major Revenue Collections Summary Thru December 2012

Greg Albrecht, Chief Economist

December marks 6 cash months and approximately 5 accrual months of collections this fiscal year. Overall, December was a good collections month, practically the first good month so far this fiscal year. On the strength of this one month, the year-to-date growth of both personal income tax and general sales tax were pulled ahead of forecast. While this is obviously a good thing, both of these taxes have been exhibiting a strong monthly seesaw pattern and a single subsequent weak month can pull the year-to-date performance below forecast. A string of good months is necessary to make a trend, and the only trend seen in these revenues so far has been weakness.

Although monthly corporate collections tell us little about annual performance and exhibit wide variation, the only generally strong tax so far this year has been corporate. December was a good month for this tax, as well. The forecast for this tax is modest and generally good monthlies are encouraging. However, 1/2 to 2/3 of these collections arrive in the last quarter of the fiscal year. Thus, confidence in this tax cannot typically be obtained until late in the fiscal year.

Both severance tax and royalty receipts improved in December, as well. The severance collections currently look good compared to prior year, but this is an easy comparison that will get more difficult as we move into the later months of the fiscal year. Current collections levels will not match prior year monthlies and the year-to-date performance will deteriorate towards the forecast. Royalty collections have been weak all year except for December, and will need continued improvement to meet forecast.

Gaming receipts from riverboats, video poker, and slot machines was also improved in December, bringing the year-to-date growth positive and above forecast. Current performance is based on only 2 good months, but the forecast calls for only very modest growth. While these revenues may not disappoint this year, this discretionary spending still hasn't returned consistently.

Overall, after the 12/13/2012 Revenue Estimating Conference downward forecast revision, total tax

revenue for FY 13 is expected to drop by 0.9% from FY 12 actual collections, and general fund tax revenue is expected to drop by 1.1%. This is a year-over-year revenue drop expectation, not just a forecast drop for a given year, and is largely due to sub-par performance of the 2 taxes that largely reflect real-time economic conditions, sales tax (household and business spending) and personal income tax (employment and income generation). One good month, not quite mid-way through the accrual fiscal year and one month after the forecast revision, isn't enough to change the current forecast expectation. However, it is a good thing to finally receive some decent revenue performance.

EDUCATION

Tobacco Settlement Payments/TOPS

Charley Rome, Fiscal Analyst

LA may forfeit some or all of an estimated payment of \$137 M from tobacco companies in FY 14 if an arbitration panel finds that the state did not make a diligent effort to regulate cigarettes sales in calendar year 2003 by companies that did not join the Tobacco Master Settlement Agreement (MSA). The state may lose the settlement payment due to a long running legal dispute between tobacco companies and states regarding regulation and taxation of cigarettes sold by companies that did not participate in the MSA.

The MSA includes a dispute and arbitration process where tobacco companies can contest the calculation of payments and the regulation and taxation of cigarettes by states. The MSA also allows for the downward adjustment of annual settlement payments to states if the arbitration process finds that states did not make a diligent effort to regulate and tax cigarettes. The Attorney General is representing LA in this dispute. A panel of 3 retired federal judges will hold LA's hearing in Florida in March 2013.

If the arbitration panel does not rule in LA's favor and the state loses the entire payment for FY 14, the state will need to find an alternative funding source for the following items in FY 14:

1. \$41 M for the Taylor Opportunity Scholarship Program (TOPS) from the TOPS Fund. The LA Office of Student Financial Assistance projects that the total TOPS budget in FY 14 will be approximately \$204 M, including the \$41 M that might be lost from the tobacco payment proceeds.
2. \$14 M from the LA Fund used for the Attorney General, the Dept. of Health & Hospitals (DHH) Medical Vendor Payments, and school based

health clinics funded by the DHH Office of Public Health.

3. \$82 M to pay bondholders for securitization of 60% of the tobacco settlement income stream as required by Act 1145 of the 2001 Regular Legislative Session.

The MSA arbitration hearing relates only to LA's regulation of cigarettes in calendar year 2003. If the tobacco companies are successful with 2003, they may pursue similar claims for calendar years after 2003. Successful arbitration by the tobacco companies based on additional calendar years could lead to diminishment or forfeiture of tobacco settlement payments in FY 15 and thereafter.

FY 13 Deficit Reduction Impact on Higher Ed

Charley Rome, Fiscal Analyst

According to the Division of Administration (DOA), \$10 M of the \$22 M in SGF mid-year reduction to higher education will be offset by tuition increases that exceed current budgeted amounts in FY 13. In previous fiscal years, actual tuition revenues exceeded budgeted tuition amounts by at least \$10 M per year. However, the actual amounts of tuition that exceed budgeted amounts for FY 13 will not be known until the end of FY 13. Furthermore, the tuition increases by institution may vary significantly from the actual SGF reduction amounts by campus allocated by the Board of Regents based on a fixed 2.579% SGF reduction per campus used by the board.

According to the DOA, savings from a hiring freeze will offset \$12 M of the \$22 M in SGF mid-year reduction to higher education. Unlike most state agencies, there is no information available to estimate savings from the hiring freeze by campus. The actual savings by campus from the hiring freeze may vary significantly from the actual SGF reduction amounts by campus allocated by the Board of Regents based on a fixed 2.579% SGF reduction per campus used by the board.

For example, one university may receive a \$100,000 cut in SGF from Regents, but save \$200,000 from the hiring freeze for a net budget increase of \$100,000. On the other hand, another university may receive a \$100,000 cut in SGF from Regents, but save \$50,000 from the hiring freeze for a net budget decrease of \$50,000.

Funding needs for K-12 Education in FY 14

Mary K. Drago, Education Section Director

The FY 14 Continuation Budget presented in January at the Joint Legislative Committee on the Budget meeting compares continuation costs of FY 14 to the

existing operating budget of FY 13, which contains significant increases for K-12 Education. There is a \$30 M increase in SGF related to the mid-year count in the Minimum Foundation Program (MFP) (increase of over 9,000 students), and a \$60 M increase in SGF to account for the 2.75% increase to the base per pupil amount in the MFP. However, the 2.75% increase has not been funded in the past several years. There is also an \$8 M increase in SGF, which is related to implementation costs for the education reform initiatives mandated by Acts 1, 2 & 3 of 2012. The LFO has requested additional information from the Dept. of Education related to the implementation costs and will make the information available in a subsequent *Focus on the Fisc*.

GENERAL GOVERNMENT

Capital Outlay & Debt Limit Issues

Deborah Vivien, Economist

According to reports made by the State Bond Commission (SBC), funding for projects in the Capital Outlay Bill is in danger of being exhausted due to: 1) the inability to interfund borrow; and 2) constitutional constraint of the debt limit.

Inability to Interfund Borrow

As of 1/25/2013, the cash balance of the Capital Outlay Escrow Fund (COEF), into which bond proceeds are deposited, is approximately \$272.5 M. The typical use of the fund is approximately \$56 M per month, which implies about 5 months of cash available to cover current obligations, but only if all the cash is available to support all capital outlay projects. The sub-funds within the COEF along with the available cash balance (net of known payables) of each are: Dept. of Transportation & Development (DOTD) transportation projects, not including TIMED projects, (\$35.9 M); and Facility Planning & Control (FPC) projects within the Capital Outlay Bill under the control of FPC (\$57.2 M) and other appropriations, mainly Coastal Restoration (\$179.2 M).

As made evident by the balances, the DOTD fund for transportation projects is approaching depletion to cover ongoing projects. Unlike the State General Fund (SGF), the COEF may not have authorization to engage in interfund borrowing, though the final interpretation is not clear. It is possible that a statutory change would explicitly allow interfund borrowing within the COEF to utilize Coastal dollars that may not be needed for a time or have been or will be supplanted with other revenue sources, such as the BP settlement or federal assistance. Should any funds be available for borrowing, they would have to be repaid within the year.

Interfund borrowing issue aside, there will still be a future need to replenish the COEF by issuing more bonds to cover expenditures related to existing lines of credit and any future projects. However, any options concerning bond issuance may face problems because the debt limit is constraining debt capacity below that which will cover all current capital outlay obligations, before consideration of additional bond issuances.

Constitutional Constraint of the Debt Limit

Net State Tax Supported Debt, under which any new issues will fall, is very close to the debt limit, which requires annual debt service not exceeding 6% of taxes, licenses and fees (TLF) as adopted by the Revenue Estimating Conference. Current debt service is \$582.7 M and 6% of TLF as of 12/31/2012 for FY 14 was \$605.1 M leaving debt service capacity of \$22.4 M. A report from the SBC detailing the official net state tax supported debt and the state's capacity in the future is due soon. The report is expected to reflect approximately \$250-325 M (assuming a 20-year issue of level debt with the range dependent upon the interest rate) in debt capacity remaining and, as such. There is not enough capacity to fund a new \$250 M General Obligation (GO) issue to cover on-going capital outlay projects plus \$250 M to cover the State Highway Improvement Fund (SHIF) bonds recently approved for rural highways. However, DOTD has recently announced plans to issue only \$100 M in SHIF bonds, which presumably allows a larger issuance of GO bonds, though the SBC has only approved the total \$250 M SHIF issuance.

Regardless of the use of bond proceeds, the state will exhaust its debt capacity in covering any chosen combination of debt obligations totaling \$250-325 M. In budget discussions, future bond proceeds appear to have been earmarked to accommodate a portion of the mid-year budget cuts, \$40 M of which may be funded within capital outlay, and possibly future LED obligations for major projects, though the timing and amounts necessary are not certain. Assuming the SHIF and GO issues are in amounts that will exhaust debt capacity, any additional debt is over the limit, including \$7 M in LA Agricultural Finance Authority funding to remedy the Lacassine Syrup Mill obligation and \$350 M in rolling GO debt to secure the approved lines of credit, and \$800 M to cover past issuance delay (the lines of credit that must be covered outside the rolling \$350 M). Cash lines of credit issued but not yet expended through the COEF total about \$1 B. In addition, the SBC has already approved \$1.1 B in Priority 5 funding in the current year, which allows projects the ability to contract for payment beginning in FY 14, though no money may be expended during the current year. It is not clear how many of these obligations have been or will be

made. Once the bond proceeds from the Spring 2013 issue are expended, there will be no ability to issue bonds to cover outstanding lines of credit or any new projects without:

1. An increase in the debt limit, which requires 2/3 vote of the legislature, and can be a negative indicator on the state's bond rating;
2. A recovery in taxes, licenses and fees (TLF) revenue, which is tentative, especially with the uncertainty that might arise from tax reform;
3. Declaring the debt outside the limit, which also requires a 2/3 vote but is also considered a negative indicator for the state's bond rating; or
4. Stopping capital outlay projects until debt can be paid down and lines of credit not previously funded are paid, though the remaining COEF balances do not contain sufficient cash to cover these expenditures in full.

In times past, DOTD projects have benefited from cash payments from budgetary surpluses to cover shortfalls. However, these surpluses have not provided that relief in recent years and any fund balances that could be used for this purpose have been largely extinguished, especially without the ability to interfund borrow.

Other Concerns

Should the state face a reduction in its credit rating, the cost of credit could increase by 75-100 basis points (0.75-1.0% interest rate increase), leading to an even smaller capacity to borrow. Another issue that may increase the cost of bond financing is the issuance of taxable bonds, which may be the case if bond proceeds are utilized for state operating expenses, financing certain projects not eligible for tax exempt financing, or if the individual project spending is greater than 3 years old, which is the requirement for tax exempt bonds. It is estimated that the cost of credit would increase by about the same margin of 75-100 basis points for taxable bonds. However, taxable bonds do provide more flexibility in allowable uses of the proceeds. Finally, the federal government is considering removing the federal tax exemption on municipal bonds for those above a certain income, which would increase the state's cost of borrowing.

FY 13 Mid-Year Budget Problem and Resolution

Travis McIlwain, General Govt. Section Director

After the 12/13/2012 Revenue Estimating Conference reduced the FY 13 revenue forecast by \$129.2 M, the Commissioner of Administration notified the Joint Legislative Committee on the Budget of a budget deficit. The Division of Administration (DOA) approved an FY 13 Mid-Year Reduction Plan in December 2012 (Executive Order BJ 2012-24 and

Executive Order BJ 2012-25), which attempted to solve a \$165.5 M SGF problem (see below). It is unknown at this point how many of these reductions and/or one-time revenue solutions will be annualized in the FY 14 Executive Budget.

- (\$129.2 M) REC reduction in SGF revenue forecast
- (\$30.0 M) MFP underfunding due to October 2012 child count for school year 12/13
- (\$11.4 M) TOPS underfunding based upon student count
- \$5.1 M Calculated SGF available in November after satisfying preamble reductions
- (\$165.5 M) FY 13 Mid-Year Deficit Problem in SGF**

Based upon LFO analysis of the FY 13 Deficit Reduction Plan, the overall FY 13 Deficit Reduction Plan was solved by implementing the following budgetary adjustments:

- (\$7.1 M) Hiring Freeze Savings (BJ 2012-6)
- (\$68.3 M) Maximization of Other MOF
- (\$40.4M) Cash substituted for Capital Outlay appropriations (FY 13 Supplemental Bill)
- (\$49.7 M) Other Reductions/ Adjustments
- (\$165.5 M) FY 13 Mid-Year Deficit Problem**

\$7.1 M of the SGF problem was resolved via the Hiring Freeze Executive Order (BJ 2012-6). *The DOA attributes \$12 M hiring freeze savings within Higher Education. See Charley Rome's write-up, "FY 13 Deficit Reduction Impact on Higher Ed".*

\$68.3 M was alternatively financed in lieu of SGF reductions. The significant revenue sources utilized are as follows: Anticipated Average Wholesale Price legal settlements (\$30.5 M); Higher Ed tuition increase (\$10 M); redirection in TANF, which frees-up these funds to be utilized in LA-4 (\$7.3 M); SGR from local governments for local share of election costs (\$1 M); Dept. of Corrections from excess proceeds from offender canteen sales (\$5.5 M); and the Office of Risk Management SGF support to be replaced with Hurricane Katrina proceeds (\$11.3 M).

\$40.4 M of the SGF problem was alternatively financed by swapping cash in various funds (SGF & Statutory Dedications) in exchange for capital outlay appropriations (General Obligation bond debt). The significant capital outlay swaps include the following: Office of Facilities Corporation Maintenance Fund (\$15 M); State Parks Improvement Fund (\$4 M); Overcollections Fund/LA Government Assistance Program (\$0.7 M); Community Water & Enrichment Fund (\$0.9 M); and LED State Commitments (\$19.4 M in SGF).

\$49.7 M of the SGF problem was resolved by reductions to the following agencies: DOA utility costs (\$0.8 M); Military death benefits costs (\$0.8 M); Dept. of Corrections (\$1.1 M); Office of Juvenile Justice (\$4.6

M); Dept. of Health & Hospitals (\$20.5 M); Dept. of Children & Family Services (\$1 M); Local Housing of State & Juvenile Offenders (\$3 M); and SGF Deposits in Schedule 20-XXX (\$2.2 M).

Based upon LFO analysis, the DOA has addressed approximately 66% of the mid-year deficit by utilizing one-time resources (\$68.5 M – MOF swaps & \$40.4 M – Capital Outlay). Therefore, of the \$165.5 M FY 13 SGF deficit, the administration is reducing the current year budget \$56.8 M.

Capital Outlay Resources (GO Bond Debt) Utilized in FY 13 Deficit Reduction Plan

Travis McIlwain, General Govt. Section Director

The administration is solving 25% of the \$165.5 M FY 13 budget deficit problem by swapping cash (from various Statutory Dedications & off-budget funds) in exchange for General Obligations (GO) bond debt in the capital outlay budget in the amount of \$40,399,158. Essentially, the budget mechanism that will take place is as follows: 1) SGF is being reduced; 2) The other resource will be appropriated in a like amount; and 3) That other resource will likely be "replenished" with GO bond debt in the FY 13 Supplemental Appropriations Bill (capital outlay section). The specific resources being swapped for GO bond debt include:

\$15 M Office Facilities Corporation Maintenance (OFC) Fund - MOF swap that reduces SGF and increases SGR by a like amount, which utilizes funding from the OFC Maintenance Fund (off-budget/non-Treasury Fund). Essentially, the Division of Administration (DOA) is utilizing this off-budget resource in FY 13. The LFO has requested details from the DOA concerning this fund but the DOA has not responded. According to the public testimony, the \$15 M from the maintenance fund will be "back filled" with capital outlay GO bond debt. According to Facility, Planning & Control, it is unknown at this time as to what priority funding this resource will be given. These capital outlay adjustments will likely be contained in the FY 13 Supplemental Appropriations Bill during the 2013 Regular Legislative Session. The LFO is uncertain if utilizing these maintenance fund resources violates the bond indenture between the OFC and the bondholders.

\$975,483 Community Water Enrichment Fund - MOF swap that reduces SGF \$975,483 and increases budget authority from the Community Water Enrichment Fund by a like amount. These resources were originally appropriated via an approved Joint Legislative Committee on the Budget carry-forward BA-7. The LFO has requested from the DOA whether these local projects have been eliminated or if they

will now be funded in a future capital outlay appropriation (likely FY 13 Supplemental Appropriations Bill).

\$733,935 Overcollections Fund - These resources were originally appropriated for the LA Government Assistance Program (LGAP) in FY 13 via an approved carry-forward BA-7. The LFO has requested information from the DOA asking if these local government infrastructure projects have been eliminated or if they will be funded in a future capital outlay appropriation (likely FY 13 Supplemental Appropriations Bill).

Note: As of January 2013, the DOA has expended \$497,757 from the Community Water & Enrichment Fund and has expended \$204,704 from the Overcollections Fund (LGAP). In order for the DOA to utilize the full amounts for the FY 13 Mid-Year Reduction Plan, accounting adjustments (reverse warrants) would be required to put the expended funds back into the appropriate statutory dedication, which would ultimately be replaced with capital outlay bond authority.

\$19,689,740 LED State Commitments - Reduction of \$19,689,740 in SGF used to fund business infrastructure commitments. LED will fund these business infrastructure commitments with a supplemental appropriation later in the year or with capital outlay funding if supplemental funding is not available. Of the \$59.9 M in total appropriation within LED State Commitments (Schedule 20-931), approximately \$25.9 M of funded commitments are eligible capital outlay projects (infrastructure projects). This adjustment essentially gives up the SGF cash in exchange for capital outlay bond authority.

\$4,000,000 LA State Parks Improvement & Repair Fund - The mid-year budget reductions include a \$ 4 M reduction of SGF and an increase in Statutory Dedications by a like amount. The source of the Statutory Dedications is from the LA State Parks Improvement and Repair Fund. Funding is used for operations of the state parks and will affect the ability of the Office of State Parks to complete major repairs and maintenance. According to the DOA, these resources will be "back filled" with GO bond debt in the Capital Outlay Program.

Note: Although the DOA is indicating that the resources being transferred are going to be "back filled" with capital outlay, these projects may potentially end up in the Capital Outlay Bill on an "as needed basis." Thus, it is possible that some of these "back fills" may not actually be funded in the FY 13 Supplemental Appropriations Bill (capital outlay section) and may be pushed off until FY 14 or FY 15.

FY 14 Continuation Budget (CB) *Travis McIlwain, General Govt. Section Director*

At the January 2013 Joint Legislative Committee on the Budget meeting, the Division of Administration presented the FY 14 CB with a projected SGF imbalance of approximately \$1,278,096,671.

The CB is a planning tool that compares projected SGF revenue with projected SGF expenditures necessary to sustain the current year's state operations and service delivery (FY 13) in subsequent fiscal years (FY 14 – FY 17). Projected SGF expenditures attempt to account for employee payroll growth (merit raises, general and medical inflation, changes in program utilization, funding mandates and changes in federal financing availability. This is not the budget goal for the ensuing fiscal years, and not all these adjustments are funded each year. However, the CB exercise provides the SGF dollar equivalent of funding decisions the legislature must make to continue the current slate of state government operations, activities and services. The Executive Budget (EB) proposal is ultimately the budget goal and incorporates those portions of continuation costs that are supported by the administration as well as any number of administration budget initiatives not contained in the CB exercise. Until an EB proposal is submitted in February, the ensuing year's budget is discussed in CB terms.

Below is a table that summarizes the significant SGF adjustments contained in the FY 14 CB. These SGF adjustments may or may not be included in the FY 14 EB proposals. This table lists the major SGF decisions that have to be made during the FY 14 budget development process.

SGF Adjustments	FY 14 Continuation
Performance Increase (Merits)	\$26,188,143
Inflation (Medical/General)	\$97,931,500
Retirement	\$2,534,291
Group Insurance	\$4,307,918
Road Hazard Disallowance	\$19,764,836
Major MOF Swaps	\$626,243,808
<i>State Parks Impro. & Repair Fd (\$5,210,907)</i>	
<i>2-yr MV Inspection Sticker (\$10,000,000)</i>	
<i>Medicaid FMAP Change (\$309,614,569)</i>	
<i>Replace one-time monies in MATF (\$218,342,753)</i>	
<i>TOPS Fund (\$14,975,579)</i>	
<i>DOE replaces CDBG Funds (\$33,100,000)</i>	
<i>NOAH Sale (\$35,000,000)</i>	
Medicaid Program Utilization	\$64,983,638
OSFA Projected TOPS awards	\$31,999,119
DOE Education Reform	\$8,000,000
MFP estimated growth	\$60,094,272
MFP annualized current year growth	\$30,000,000
LED State Commitments	\$20,268,235
Debt Service Requirements	\$90,029,097
Capital Outlay – LGAP	\$8,700,000
Special Acts/Judgments	\$24,987,877

Other Various Net SGF Adjustments	\$78,733,838
TOTAL	\$1,194,766,572

Note: Although there is approximately \$221.6 M in SGF revenue growth from FY 13 to FY 14, for the purposes of crafting the CB the net revenue growth is actually \$52.5 M in SGF due to the inclusion in the FY 13 budget of approximately \$155.4 M of Act 597 (Funds Bill) resources utilized in FY 13 that need to be replaced in FY 14. The FY 14 CB assumes the expenditures being supported by these Act 597 resources will continue in FY 14, but with SGF.

Act 597 Action Not Materialized (Update)

Travis McIlwain, General Govt. Section Director

In the December issue of *Focus on the Fisc*, the LFO indicated that there were approximately \$305 M of funds bill resources that have not been transferred to the SGF, Medical Assistance Trust Fund (MATF) or Overcollections Fund that have been appropriated in FY 12 & FY 13. Based upon updated information provided to the LFO by the State Treasury, to date there are approximately \$281.4 M of funds bill resources that have not been transferred to the SGF, MATF or Overcollections Fund that have been appropriated in FY 12 & FY 13. Thus, approximately \$113.7 M of the \$380 M has been transferred to date.

Act 597 transfers approximately \$258.5 M from various resources into the SGF. *To date, there are approximately \$64.7 M (or 25%) of resources that have been transferred into the SGF for expenditure.* Some of the significant funding items *not* transferred include: \$56 M – Risk Management’s Self-Insurance Fund; \$10 M – Proceeds from NOAH sale; \$5 M – Proceeds from 6 Average Wholesale Price (AWP) legal settlements; \$78.3 M – bond repayments; and \$10 M – FEMA reimbursements.

Act 597 transfers approximately \$79.5 M from various resources into the MATF. *To date, there is approximately \$42.9 M (54%) of resources that have been transferred into the MATF for expenditure.* Some of the significant funding items *not* transferred include: \$20 M – Ernest Morial Exhibition Hall Authority; \$25.9 M – bond repayments; and \$6.7 M – various fund transfers. *A large portion of the \$42.9 M transferred into the MATF comes from collecting \$38 M of AWP legal settlements. Act 13 (HB 1) only appropriates \$22 M of these resources. For more information on this specific issue, see Shawn Hotstream’s write-up on Medicaid in this issue of Focus on the Fisc.*

Act 597 directs the state treasurer to transfer \$41.1 M into the Overcollections Fund. *To date, there is approximately \$6.1 M (15%) of resources that have been transferred into the Overcollections Fund for expenditure.* The significant funding item not transferred includes:

\$35 M – Sale/lease of NOAH. In addition to NOAH, Act 597 directs the State Treasurer to transfer proceeds from the sale of the former Dept. of Insurance building site, excess receipts over \$10 M from FEMA reimbursements and excess receipts over \$56 M from the Self-Insurance Fund. These additional transactions have not taken place and are not currently included in the FY 13 operating budget.

To the extent these Act 597 resources do not materialize, the FY 13 SGF budget could finish the fiscal year in a deficit posture unless expenditures are reduced.

Litigation Expenditures BP Oil Spill Lawsuit

Evelyn McWilliams, Fiscal Analyst

As of 12/31/2012, the Attorney General expended a total of approximately \$23.7 M on the Deepwater Horizon Oil Spill litigation.

Approximately \$23.1 M of the \$23.7 M expended was for professional services contracts. The balance of the expenditures was for overtime (\$0.3 M), travel (0.1 M), operating services (\$0.1 M) and acquisitions (\$0.1 M). The Attorney General paid approximately \$15.7 M to 13 contractors for legal services, \$6.2 M to a data management contractor and \$1.2 M to 2 contractors for expert accounting. Payments for legal services were made to the following contractors: \$7,077,753 to Kanner, & Whiteley; \$4,151,450 to Usry, Weeks & Matthews; \$2,327,621 to Henry Dart; \$633,706 to Shows, Cali, Berthelot & Walsh; \$385,400 to Marten Law; \$329,823 to Greenfield Advisors; \$312,917 to the Faircloth Law Group; \$231,096 to Galloway, Johnson, Tompkins, Burr & Smith; \$176,000 to Celia R Cangelosi; \$27,013 to Spears & Spears; \$27,259 to Nicholas E. Flores; \$21,400 to Heller, Draper, Hayden, Patrick & Horn; and \$5,706 to the Edwards Law Group. Emag Solutions received \$6,226,423 for data management services. Legier & Company was paid \$911,502 and the Theriot Group was paid \$244,704 for expert accounting.

According to the LA Attorney General’s Office, Louisiana and Alabama are the only parties currently involved in the Deepwater Horizon litigation. The Attorney General’s Office states that Mississippi and Florida have chosen to stay out of the litigation for now and that Texas has little at stake in the matter so Texas likely could handle its litigation in house. The LFO spoke with the Alabama Attorney General’s Office regarding how Alabama was providing for its Deepwater Horizon litigation expenses and was told that Alabama was utilizing in-house attorneys.

Collections into the Oil Spill Contingency Fund originate from fees, taxes, penalties, judgments, reimbursements, charges and federal funds collected under the provisions of Chapter 19, “The Oil Spill

Prevention and Response Act” (R.S. 30:2451). Since current collections into the Oil Spill Contingency Fund are not sufficient enough to provide for existing appropriations, the Treasurer’s Office seeded the fund with SGF. The SGF seed will eventually be paid back when a settlement or other collections into the fund are received.

\$5 M Super Bowl Incentive Pymt. to the Saints

Travis McIlwain, General Govt. Section Director

The New Orleans Saints and the state signed a new contract in April 2009 to keep the team in New Orleans through 2025. The agreement will ultimately save the state an estimated \$280 M over the life of the new contract compared to the previous contract. However, the contract requires the state to make an incentive payment to the team if New Orleans hosts a Super Bowl. Pursuant to Section 4.6 (Super Bowl Incentive) of the contract, the state is required to pay the New Orleans Saints \$5 M for each Super Bowl that is played in New Orleans. Pursuant to the contract, this \$5 M incentive payment is due at the conclusion of the fiscal year in which the game is played. The 2013 Super Bowl is scheduled in New Orleans on Sunday, 2/3/2013. Thus, based upon the Section 4.6 of the contract, the state owes the New Orleans Saints \$5 M by 6/30/2013 (last day of FY 13). At this time, the Division of Administration does not know how this payment will be made. The LFO assumes this appropriation will likely be included in the FY 13 Supplemental Appropriations Bill, but is unsure of the source of funds that will ultimately be utilized for such payment.

LA 1 Toll – Leeville Bridge

Alan Boxberger, Fiscal Analyst

The LA Legislative Auditor’s Office released an audit report on 11/28/2012, citing ongoing financial and operational difficulties surrounding the collection of tolls by the LA Transportation Authority (LTA) on the LA 1, Leeville Bridge. Included among the audit findings were technical issues that resulted in previous year toll revenue losses. The auditor additionally issued an opinion that toll revenues are likely to be insufficient to make scheduled bond payments in the future, which may result in a need for additional funds appropriated by the Legislature.

The LTA and DOTD are exploring options to address the projected potential shortfall of toll revenues necessary to achieve debt service coverage requirements in the bond’s rate covenant. Under the originally scheduled, graduated toll increase, a 20% increase in the toll began on 1/1/2013. The minimum toll rose from a minimum \$2.50 for a 2-axle vehicle to \$3. The maximum toll for the largest 18 wheel vehicle

trailers increased from \$12 to \$15. A toll consultant report commissioned during 2012 suggested tolls might be required to more than double in 2013 (+108%) in order to make increasing base payment requirements against the debt service, which is back loaded.

At the 12/21/2012 meeting of the LTA, DOTD officials indicated that they’ve initiated efforts to refinance the existing Transportation Infrastructure Finance & Innovation Act (TIFIA) loan and consolidate the bonds into a new TIFIA loan for \$174 M. If this effort is able to achieve a favorable interest rate, the department believes the existing toll revenue schedule and built-in increases will provide the requisite 1.3 times debt service coverage. To this end, the LTA voted to allow the toll increase to proceed at its normal 20% incremental increase in January 2013, until results of the consolidation loan effort are known. In the event there is insufficient toll revenue generated in 2013 or 2014 to achieve debt service requirements, the department may be forced to seek funding through legislative appropriation. The potential exposure to the state is estimated at \$1.43 M in calendar year 2013 and \$1.12 M in calendar year 14.

Louisiana Real ID

Alan Boxberger, Fiscal Analyst

The Federal Real ID Act of 2005 created federal standards for state driver’s licenses and ID cards to be accepted by the federal government for official purposes, as defined by the Secretary of Homeland Security. Those purposes currently include boarding commercially operated airline flights, entering federal buildings and gaining access to nuclear power plants. While originally scheduled for full implementation by 5/11/2008, a series of actions by numerous states, as well as non-clarity on requirements and inability by some states to provide rapid implementation, resulted in a series of deferments to the beginning date.

LA adopted Act 807 of the 2008 Regular Legislative Session, directing the Dept. of Public Safety and Office of Motor Vehicles to not implement the provisions of the Real ID Act. At that time, state costs were estimated at \$10 M to \$12 M for implementation, with additional funding needed for annual maintenance costs. Since original passage of the Federal Real ID Act of 2005, at least 24 other states have also passed legislation denying or restricting full implementation of the ID requirements. While LA is not implementing the full features of Real ID, it continues to make incremental changes to enhance security features through developing technologies and processes.

On 12/20/2012, the Dept. of Homeland Security (DHS) announced that 13 states had achieved Real ID

standards and that it was issuing a temporary deferment to the remaining states, effectively granting an additional extension beyond the existing 1/15/2013, deadline. The temporary deferment did not have a specific termination date, but DHS indicated that it would develop and publish a schedule by early fall of 2013 for the phased enforcement of the Act's statutory prohibitions to ensure that residents of all states are treated in a fair manner. Due to the large number of states with current legislative or administrative barriers to implementation, the likelihood of significant enforcement activity is uncertain.

Truancy & Assessment and Service Center (TASC) Program Reduction

Evelyn McWilliams, Fiscal Analyst

The \$331,563 mid-year reduction in the administrative cost for the TASC Program will result in the termination of outcome evaluation and monitoring of local TASC sites by the LSU School of Social Welfare's Office of Social Service Research & Development (OSSRD). OSSRD is responsible for monitoring and evaluating 16 operating TASC sites in 25 parishes and reporting this information to the legislature. The TASC Program was created in statute in 1998 to prevent students from dropping out and diverting at-risk youths from crime.

The TASC Program's administrative budget of \$571,163 is composed of \$80,000 for the LA Commission on Law Enforcement and \$491,163 for the OSSRD. LSU plans to continue to administer the program through the end of this fiscal year. However, OSSRD will no longer be able to provide the outcome evaluation and monitoring to local TASC sites, effective 12/31/2012. LSU will be working on the final TASC report to the legislature and working with TASC directors on a transitional plan. In addition, LSU is helping the TASC sites develop a data collection plan they can use, since the loss of LSU's services implies the loss of the existing data collection capability and database.

This reduction along with LSU's exit from the TASC Program will not effect the TASC funding going to local governmental entities. TASC funding to local governmental entities is not being reduced. Local entities receiving TASC funding will continue to provide the truancy services it is currently providing.

LA State Parks Improvement & Repair Fund

Stephanie Blanchard, Fiscal Analyst

The LA State Parks Improvement & Repair Fund (Act 729 of 1989) is derived from fees and other self-generated revenues from the state parks. The fund is

to be used exclusively for improvements and repairs at state parks, subject to annual legislative appropriation. Parks are allocated 50% of the fees and self-generated revenues generated by each park, except for revenues generated through the operation of the wave pool at Bayou Segnett State Park. The remaining 50% of the funds are to be used on the following priority need basis: 1) protection of life and property at existing facilities; 2) general repairs and improvements at existing facilities; 3) addition of new facilities at existing parks; and 4) acquisition of property to expand existing parks.

Since FY 09, approximately \$25 M has been diverted from the fund for either operations at a specific park or for statewide operations of the park system. The amounts that have been diverted from the fund are:

FY 09	\$582,693 (Act 19 and Act 226)
FY 10	\$3,972,784 (Act 10 and Act 633)
FY 11	\$922,801 (Act 11)
FY 12	\$7,615,924 (Act 12 and mid-year)
FY 13	\$7,909,744 (Act 13)
FY 13	<u>\$4,000,000</u> (mid-year)
Total	\$25,003,926

The FY 13 appropriation totals \$7,909,774 and includes salaries (\$7,159,774), other charges (\$250,000), and acquisitions (\$500,000) for the Office of State Parks (Schedule 06-264).

Each year the Office of State Parks submits a list of over \$10 M in projects for consideration and there are approximately 100 projects that have not been funded.

Note: \$6.6 M from the fund is appropriated in Act 23 (HB2) of 2012. According to the department, it is anticipated none of the \$6.6 M will be expended in FY 13 due to the projected year-end balance of the fund of \$1.5 M.

HEALTH & HOSPITALS

Temporary Assistance for Needy Families (TANF)

Patrice Thomas, Fiscal Analyst

As part of the mid-year deficit reductions, the Dept. of Children & Family Services (DCFS) reallocated \$3,497,660 in TANF funding to mitigate a SGF reduction in the Child Welfare Program and add funding to the Modernization initiative within the DCFS.

In addition, DCFS redirected \$4,655,913 in TANF funding among existing initiatives to LA-4. The TANF initiatives reductions are Family Violence, Commun-

ity Supervision in the Office of Juvenile Justice (OJJ), and Substance Abuse and Early Childhood Supports in the Dept. of Health & Hospitals (DHH).

The total amount of TANF funds remains \$147.6 M with an anticipated carry-forward of \$89,508 as reflected in the chart below. Only TANF initiatives impacted by the reallocation are included in the chart.

	FY 13		FY 13
	Appropriated	Reallocation	EOB
CORE WELFARE:			
Cash Assistance-FITAP/KCSP	\$30,000,000	(\$1,000,000)	\$29,000,000
STEP	\$7,157,682	(\$657,682)	\$6,500,000
Modernization	\$1,030,041	\$469,959	\$1,500,000
Administration	\$13,500,000	(\$1,500,000)	\$12,000,000
FEDERAL INITIATIVES:			
Community Supervision (OJJ)	\$1,800,000	(\$900,000)	\$900,000
LA4 (DOE)	\$29,550,000	\$4,655,913	\$34,205,913
Child Welfare (DCFS)	\$30,721,874	\$3,497,660	\$34,219,534
Family Violence (DCFS)	\$4,700,000	(\$998,413)	\$3,701,587
Substance Abuse (DHH)	\$3,588,903	(\$529,445)	\$3,059,458
Early Childhood Supports (DHH)	\$5,550,000	(\$2,775,000)	\$2,775,000
Homeless (DCFS)	\$850,000	(\$212,500)	\$637,500
Abortion Alternatives (DCFS)	\$1,400,000	(\$140,000)	\$1,260,000
CORE WELFARE	\$51,687,723	(\$2,687,723)	\$49,000,000
INITIATIVES	\$78,160,777	\$2,598,215	\$80,758,992
TOTAL	\$129,848,500	(\$89,508)	\$129,758,992

Community Supervision: As a result of this \$900,000 TANF funding reduction, the Contract Services Program in the OJJ may have to end certain private providers contracts within 30 days. Contracts providing services related to prevention diversion, community reintegration and mentor tracing will be reduced or discontinued. The reduction will result in an indeterminable decrease in the number of youths served in the community-based programs.

Family Violence: The reallocation of \$998,413 TANF funding from the Family Violence initiative will impact contracts for residential care for family violence victims from community providers. DCFS stated that family violence services are moving away from costly residential care provided by community providers to more productive and less costly community-based services such as short-term hotel stays. A total of 19 community providers that had family violence contracts had their contacts reduced by 16%.

Homeless: According to DCFS, the reallocation of \$212,500 TANF funding from the Homeless initiatives will have no impact on services. The Homeless initiative is being moved to LA Housing Corporation that has assumed responsibility for all statewide housing programs.

Abortion Alternatives: DCFS was in the process of creating a Request for Proposal (RFP) for the Abortion Alternative initiative. The initiative primarily provides information and counseling that promotes healthy childbirth and assists pregnant women in their decision regarding adoption or parenting. Since no RFP was awarded, the reallocation of \$140,000 in TANF funding is not anticipated to impact services. DCFS still has \$1.26 M to expend on Abortion Alternatives in FY 13.

Early Childhood Supports: In the FY 13 mid-year expenditure reduction mandated by executive order BJ 2012-24, as of 2/1/2013, DHH will eliminate the Early Childhood Supports & Services (ECSS) Program as a result of the loss of a total of \$2.775 M in federal TANF funding transferred from the Dept. of Children & Family Services (DCFS). ECSS services are currently offered in Orleans, East Baton Rouge, Terrebonne, Lafayette, St. Tammany, and Ouachita parishes. With the loss of the TANF funding, OBH and the human service districts estimate having to layoff the 76 non-T.O. & 1 T.O. position that administer the ECSS Program. Elimination of personnel will save Office of Behavioral Health (OBH) approximately \$134,561 in SGF annually in addition to the TANF cut.

ECSS is an infant mental health program that serves children ages 0-5 with mental health disorders and their families. Specifically, it provides support services such as case management to evaluate family risk and engage a multi-agency network to provide necessary family support. It also provides clinical assessments of children and child-caregiver relationships, and ECSS provides intervention support to address behavioral and developmental health concerns. It is anticipated that some of these clients will be eligible for similar services under the LA Behavioral Health Partnership (LBHP).

Addictive Disorders Residential Bed: In the FY 13 mid-year reductions mandated by Executive Order BJ 2012-24, as of 2/1/2013, DHH will also close 12 addictive disorders residential beds as a result of the loss of \$529,445 in federal TANF funding transferred from the DCFS. The 12 residential beds are being eliminated in Region 6 in central LA. With the loss of the TANF funding, OBH and the human service districts estimate having to layoff the 15 non-T.O. employees that administer the 12 residential beds.

The 12 eliminated residential beds were for women, children, and pregnant women with addictive disorders. According to DHH, Rays of Sunshine, an existing service provider in central LA funded with a Federal Block Grant for addiction services, will primarily absorb the loss of state beds. Otherwise, other contracted residential service providers linked through the LBHP can continue care for women without children. Children are typically provided prevention services through school-based programs for ages 6-12. Children under 6 years of age will have to seek services through their pediatricians.

FY 14 Medicaid SGF Requirement: Continuation Budget (CB)

Shawn Hotstream, Health & Hospital Section Director

The FY 14 Medicaid budget (Medical Vendor Payments) reflects approximately \$686 M in SGF requirement in order to fully fund current and anticipated Title XIX claims expenditures based on continuation level funding (not including inflation). For FY 14, the most significant factors contributing to the increase in SGF include the replacement of non-recurring revenue sources, a decrease in the Federal Medical Assistance Percentage (FMAP), and projected utilization increases. Approximately 80% of the \$686 M in SGF need is the result of MOF swaps, in which the budget requires additional SGF that is not the result of additional Medicaid expenditures over the base budget. The significant amounts by category are reflected below:

\$309,614,569 replaces Federal funds with SGF as a result of FMAP change from a blended 66.58% in FY 13 to 62.96% in FY 14.

\$218,342,753 replaces non-recurring revenue sources appropriated in the Medical Assistance Trust Fund (MATF) in FY 13.

-\$64,983,638 projected Medicaid Program utilization growth for FY 14.

Note: The SGF need reflected in the CB has not historically been funded at that same level in HB 1. This is mainly due to not funding medical inflation. The FY 14 medical inflation projected in the CB is approximately \$79 M, the majority associated with Medicaid. Additionally, the level of funding that has been appropriated to address some continuation level items is not necessarily funded with SGF, but partially with some other source of revenue usually deposited into the Medical Assistance Trust Fund (MATF) and used as a state match source to draw down federal financial participation.

Note: The FY 13 revenue sources appropriated in the MATF that are anticipated to have to be replaced with

SGF or an alternative means of finance have a match effect (as these funds are used as a state match source to draw down federal financial participation). In addition, the decrease in FMAP will require \$218 M in additional SGF (or other means of finance) to draw down federal matching funds. As a result of these funds having a match effect, the total impact of not replacing these funds with some other source of revenue is a reduction of approximately \$839 M in Medicaid expenditures in FY 14. This is based on the FY 14 blended Federal Medical Assistance Percentage (FMAP). The FMAP is the federal share of reimbursement for a states Medicaid expenditures.

Note: The FY 14 CB does not address certain adjustments as a result of the FY 13 mid-year cuts. Approximately \$30.5 M in SGF was replaced with a like amount of revenue anticipated from the Average Wholesale Price drug settlements. As a result of this MOF swap in Medical Vendor Payments, Medicaid will require a like amount of SGF or alternative revenue source in FY 14 to address base Medicaid expenditures. This revenue has a match effect, and if not replaced will result in a reduction of \$49 M in Medicaid expenditures.

Medicaid FY 13 Mid-Year Cut Allocation Solution (AWP Drug Settlements)

Shawn Hotstream, Health & Hospitals Section Director

As part of the FY 13 mid-year cut, the LA Medicaid Program is allocated a SGF reduction of \$46.5 M. Of the total cut allocated, approximately 65% is being restored as a result of a Means of Finance (MOF) swap. Specifically, the DHH solved this SGF cut by eliminating or cutting certain programs by a total of \$16,010,044, and by replacing \$30.5 M in SGF with a like amount of revenues received from Average Wholesale Price (AWP) drug settlements.

The AWP drug settlements are based on lawsuits that alleged that drug manufacturers and publishers of drug prices colluded with intent to increase the published average wholesale price for certain drugs (the AWP is the base price used in purchasing drugs by certain entities). These settlements represent a recovery in Medicaid, and some of these recoveries require a federal portion (federal match on Medicaid reimbursement to providers) to be returned to the federal government. In addition, the AWP mid-year MOF swap appears to be comprised of partial revenues and partial authority, as only a portion of the total AWP revenues appropriated have been received by the Treasury (as of 1/1/2013). The total amount of AWP appropriated in FY 13 is \$52.5 M. As of 1/1/2013 approximately \$38 M has been collected, leaving \$14.5 M in additional AWP collections required to balance Medicaid in FY 13.

LSU Hospital Reductions and Partnerships Update

Jennifer Katzman, Fiscal Analyst

In order to partially offset the total funding reductions allocated to the LSU hospitals as a result of the federally mandated FMAP reduction in Medicaid, LSU is utilizing one-time money such as cash reserves and recurring savings such as contract restructuring and utilization of Upper Payment Limit (UPL) funds (approximately \$63.3 M in SGF offsets). Furthermore, LSU intends to partner with community and private providers to eliminate the need for hospital bed and service reductions (originally estimated at \$59.3 M in SGF).

Currently, there is a Memorandum of Understanding (MOU) in place with Lafayette General, LA Children's Medical Center (LCMC), and Ochsner Health System & Terrebonne General Medical Center (the "lessees") in which each private organization will lease and operate the state facilities via a cooperative endeavor agreement (CEA) to be signed by March 2013. As a result, with the exception of LSU teaching physicians employed by the LSU School of Medicine and on contract to the hospitals, current LSU employees at these facilities will be laid off from state employment before the end of FY 13 once the transaction is closed. However, the lessees will be contractually obligated to consider them for rehire before other interested applicants. The number of rehires and staffing levels at the leased hospitals will be at the discretion of the lessees.

In order to continue services at their current level for the remainder of FY 13, each lessee will make milestone payments to LSU, which will be discounted from their future lease payments. Details on the partnership milestone payment schedules are below:

LJC & Ochsner Health System Partnership

MOU	\$2.5 M
CEA (before 3/15/2013)	\$1.3 M
Close of transaction (before 6/23/2013)	\$1.3 M
Subtotal	\$5.1 M

UMC & Lafayette General Partnership

MOU	\$2.6 M
CEA (before 3/15/2013)	\$2.6 M
Close of transaction (before 6/23/2013)	\$2.6 M
Subtotal	\$7.8 M

MCL/ILH & LA Children's Medical Center Partnership

MOU	\$7 M
CEA (before 2/28/2013)	\$6 M
Close of transaction (before 7/1/2013)	\$4 M
Subtotal	\$17 M
Total	\$29.9 M

Note: In regards to the current Interim LA Hospital

(ILH) in New Orleans, the LCMC will become the sole member of the University Medical Center Management Corporation (UMCMC) Board, which will assume responsibility for the management and operations of ILH until the new academic medical center is built. Upon completion, the UMCMC, under the umbrella of LCMC, will lease and manage operations of the new hospital in New Orleans. LSU is also currently negotiating to make the move to Our Lady of the Lake (LOL) ahead of schedule in FY 13 in order to maintain a continuum of care for Earl K. Long's (EKL) patients (originally scheduled to move in November of FY 14). While discussions on an MOU with West Calcasieu Cameron Hospital and Lake Charles Memorial Hospital are ongoing for W.O. Moss Medical Center, LSU has yet to enter any other definitive agreements for partnerships. The LFO will continue to monitor current and future partnerships as they develop.

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